March 2022

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Global Economy

In February, geopolitical developments between Russia and Ukraine were the focus of global markets. After Russia launched a military operation against Ukraine on February 24, the tough sanctions announced against Russia were decisive in the course of the markets.

Oil prices tested the highest level of the last 8 years on concerns that geopolitical developments will negatively affect global oil supply. Gold prices recorded the fastest monthly increase in the last 9 months in February due to the trend towards safe investment instruments.

The macroeconomic data released in the US indicate that the positive outlook in economic activity continues. The Fed is expected to increase interest rates in March, despite the uncertainties posed by geopolitical developments.

While the data announced in the Euro Area drew a positive picture regarding the course of the regional economy in the first two months of the year, the rise in inflation expectations in the Region is gaining momentum.

In China, where inflation indicators lost momentum, the Central Bank provided approximately 120 billion USD of liquidity to the market through reverse repo in February in order to support the financial system.

Turkish Economy

According to the chained volume index, Turkish economy grew by 11% in 2021, in line with market expectations. In the last quarter of the year, the increase in economic activity lost momentum compared to the previous quarter and was realized as 1.5% mom according to seasonal and calendar adjusted data.

Seasonally adjusted unemployment rate decreased by 0.1 points compared to the previous month and became 11.2% in December. In this period, employment rate was realized as 47% and labor force participation rate became 52.9%.

Manufacturing PMI declined to 50.4 in February, pointing out that the growth in the sector continued albeit losing momentum.

In December, the current account balance gave a deficit of 3.8 billion USD due to the rise in energy prices. In 2021, the current account deficit narrowed by 58.1% yoy and amounted to 14.9 billion USD.

The central government budget balance posted a surplus of 30 billion TRY in January thanks to the increase in tax revenues.

In February, CPI increased by 4.81% mom and by 55.44% on an annual basis. While D-PPI rose by 7.22% mom, annual D-PPI inflation reached its highest level since March 1995 with 105.01%.

On February 12, a new support package for the economy was announced.

The Turkish economy grew by 11% in 2021.

According to the chain-linked volume index, the Turkish economy maintained its strong growth momentum in the last quarter of the year and grew by 9.1% on an annual basis. Thus, following the relatively weak course in 2020, Turkish economy reached a growth rate of 11% in the whole 2021, in line with the expectations.

Seasonally and calendar adjusted figures revealed that economic growth lost some momentum in the last quarter compared to the previous one. The Turkish economy, which expanded by 2.8% qoq in the third quarter, grew by 1.5% qoq in the fourth quarter.

Due to the rise in inflation, the size of the Turkish economy at current prices increased by 42.8% on an annual basis and exceeded 7.2 trillion TRY in 2021. In this period, GDP in USD terms increased by 85.8 billion USD and reached 802.7 billion USD. GDP per capita was realized as 9,539 USD at the end of 2021.

Contributions to Growth (% point)

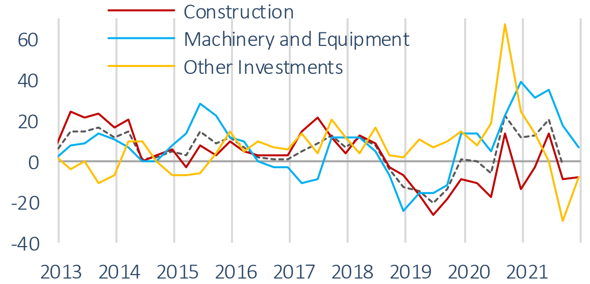
	2020	2021				
	Annual	Q1	Q2	Q3	Q4	Annual
Consumption	2.2	4.2	14.5	6.4	12.2	9.3
Private	1.9	4.2	14.0	5.5	12.5	9.0
Public	0.3	0.0	0.5	1.0	-0.3	0.3
Invetment	1.8	3.1	5.5	-0.5	-0.2	1.7
Stock Change	3.1	-1.2	-5.1	-5.4	-7.0	-4.8
Net Exports	-5.3	1.2	7.0	6.9	4.2	4.9
Exports	-3.8	0.9	11.0	5.0	4.8	5.3
Imports	-1.6	0.2	-4.0	1.9	-0.6	-0.4
GDP (yoy, %)	1.8	7.3	21.9	7.5	9.1	11.0

The strong contribution of private consumption and exports continued.

Backing by low-basis effect, expansion in private consumption and export volume led economic activity to grow rapidly in the last quarter of the year on an annual basis. According to the chain-linked volume index, private consumption expenditures contributed 12.5 points to growth in the fourth quarter, while the contribution of exports was 4.8 points. On the other hand, increase in import volume as well as decrease in investment expenditures due to posted decline in construction investments limited the growth in this period. In addition, public consumption expenditures also put pressure on growth in the last quarter of 2021. Change in stock figure limited the growth at an increasing rate throughout the year.

Private consumption and exports are the leading figures that contributed the most to the high growth performance of 11% in the whole 2021. In addition, thanks to the strong machinery and equipment investments in the first half of the year, investment expenditures pushed the GDP growth up by 1.7 points in 2021.

Investment Expenditures
(chain linked vol. index, annual % change)

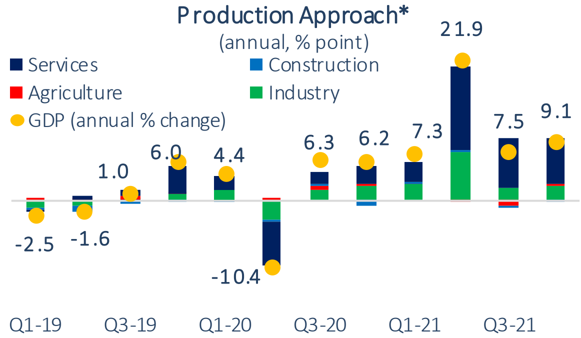


The construction sector limited growth in the last quarter.

Analysing contributions to growth figures by production approach reveals that services and industrial sectors contributed 7.4 and 2.2 points to growth, respectively, in the last quarter of the year. Agriculture sector, which limited growth in the previous quarter, made a limited contribution to growth by 0.2 points in the fourth quarter, while the construction sector limited growth in the last quarter following the third one.

Services and industrial sectors led the growth performance of GDP with a combined contribution of 11 points in 2021. In this period, the agriculture and construction sectors put pressure on growth performance, albeit to a limited extent.

Contributions to GDP Growth by Production Approach*
(annual, % point)



Expectations…

Being affected by the fluctuations in the financial markets as well as the rapid rise in inflation in the last quarter of 2021, the Turkish economy, displayed a positive growth performance thanks to strong domestic and foreign demand. 2022 has started with a declining volatility in the financial markets, but as well as the pressure that high inflation figures might create on real incomes, the war between Russia and Ukraine is expected to have negative effects on the Turkish economy through import of agricultural products, security of energy supply and pressure on tourism revenues.

Source: Turkstat, CBRT, Datastream, Ministry of Treasury and Finance

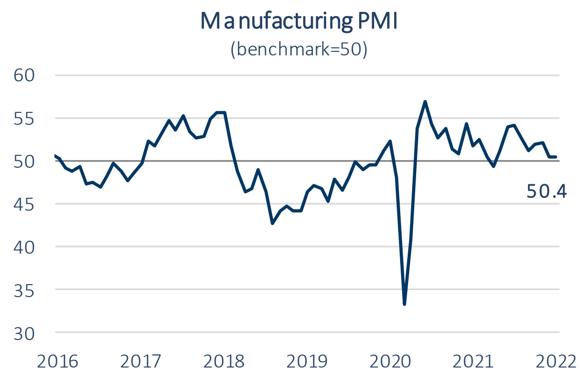
		Current Data	Prior	
Unemployment Rate	Dec	11.2%	11.3%	●
Manufacturing PMI	Feb	50,4	50,5	●
Real Sector Confidence Index	Feb	109.9	111.9	✗
House Sales (unit, annual change)	Jan	25.1%	113.7%	✗
White Goods (unit, annual change)	Jan	-16.0%	9.0%	✗
Automobile (unit, annual change)	Feb	-15.9%	-17.9%	✗

Increase in employment continued in December.

According to the data announced by TURKSTAT, seasonally adjusted unemployment rate was realized as 11.2% in December. In this period, the employment rate, which increased by 0.3 points mom, reached its highest level since October 2018 with 47%. Seasonally adjusted labor force participation rate also rose by 0.3 points to 52.9%, the highest level of the last 2.5 years. In December, employment increased by 134K, 108K and 5K persons in the service, industry and construction sectors, respectively, while it decreased by 10K persons in the agriculture sector. In December, the labor underutilization rate consisting of time-related underemployment, potential labor force, and unemployment rose by 0.5 points on a monthly basis to 22.6%.

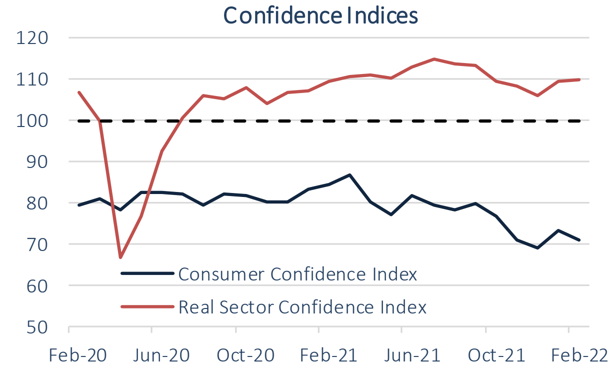
In February, the loss of momentum in the manufacturing industry continued.

In February, manufacturing PMI data declined by 0.1 points mom to 50.4, the lowest level of the last 9 months. However, the index remained above the threshold level, showing that the growth of activity in the manufacturing sector continued, albeit limited. Sub-indices of the data reveals that the new orders continued to decline due to price increases and uncertainties regarding economic activity, and fell to its lowest level in the last 5 months. Power cuts and extended delivery times caused pending orders to increase for the first time in the last 4 months. On the other hand, the efforts of enterprises to increase their existing capacities led the rise in employment in the manufacturing sector to its 21st month.



Confidence indices drew a negative picture in February.

Seasonally adjusted real sector confidence index decreased by 2 points mom to 109.9 in February. Expectations for export orders in the next three months fell to the lowest level since May 2021, while the improvement in the expectations of real sector representatives regarding fixed capital investment expenditures drew attention. The sectoral confidence indices also displayed a negative outlook in February, while the consumer confidence index decreased by 2.8% compared to the previous month to 71.2. Thus, the economic confidence index decreased by 2.6% mom to 98.2 in February, drawing a negative picture regarding the general economic situation.



House sales rose by 25% yoy in January.

Despite the fact that house sales increased by 25.1% yoy in January due to the low base effect, they were realized as 88,306 units, around the January averages of the last 10 years. In this period, mortgage sales went up by 69.4% yoy, while other sales increased by 17.2% and constituted 4/5 of the total house sales. In January, house sales to foreigners rose by 56.5% compared to the same month of last year. The share of the said sales in total house sales were realized as 4.7%.

The contraction in automotive market continued in February.

According to the data of the Turkish White Goods Manufacturers Association, white goods sales in Turkey contracted by 16% yoy in the first month of 2022, while exports decreased by 30% yoy on unit basis in this period. Due to the weak demand, white goods production decreased by 12% yoy in January.

According to the data released by the Automotive Distributors Association, Turkish automotive market contracted by 15.1% yoy in February. In the January-February period, the automotive market declined by 14.1% compared to the same period of last year.

Source: Turkstat, CBRT, Datastream, Ministry of Treasury and Finance

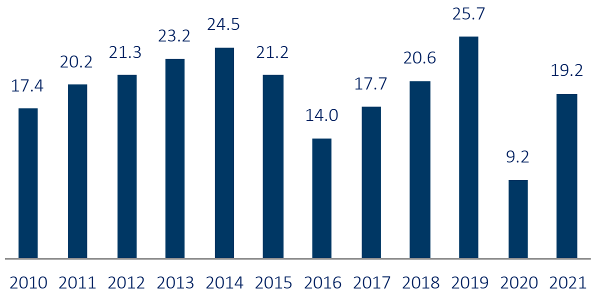
The foreign trade deficit widened rapidly in January.

According to TURKSTAT data, in January 2022, exports expanded by 17.2% yoy to 17.6 billion USD, while imports rose by 54.2% to 27.8 billion USD. Thus, the foreign trade deficit increased approximately 3.5 times on an annual basis and amounted to 10.3 billion USD in January. The import coverage ratio of exports, which was 83% in January 2021, decreased to 63.2% in the first month of 2022, the lowest level of the last 4 years.

The current account balance gave a deficit of 14.9 billion USD in 2021.

In December 2021, the current account deficit increased by 11.7% yoy and reached 3.8 billion USD, the highest level of the last 16 months. In this period, the rise in balance of payments defined foreign trade balance by 48.3% yoy (to 5 billion USD) with the effect of the increase in energy prices was behind the widening of the current account deficit. Due to the limited impact of the pandemic on economic activity compared to 2020, the net service revenues rose by 190.8% yoy in December, in parallel with the increase in transportation and tourism revenues, and limited the widening of the current account deficit.

Tourism Revenues
(billion USD)

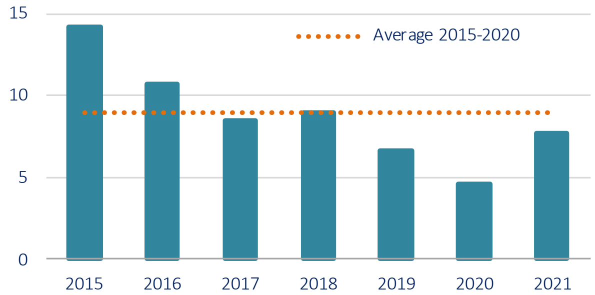


In 2021, the current account deficit narrowed by 58% yoy to 14.9 billion USD. While high oil prices in the global markets put pressure on the current account balance, the contraction in the foreign trade deficit throughout the year limited this pressure. The doubling of net travel revenues was another factor supporting the positive course in the current account balance. Excluding net energy imports, the current account balance ended 2021 with a surplus of 27.3 billion USD.

In December, direct investments declined annually.

Net foreign direct investments contracted by 26.1% yoy to 739 million USD in December. In this period, capital investments of non-residents in Turkey amounted to 793 million USD, while real estate investments amounted to 618 million USD. In December, investments in information & communication and wholesale & retail trade sectors came to the fore in the distribution of direct investments by sectors. On the other hand, net capital outflow in the amount of 1 billion USD limited net inflows in direct investments in the last month of the year. In the whole year of 2021, net direct investments went up by 67.6% yoy to 7.7 billion USD, with the effect of the increase in investments of non-residents, especially in the wholesale & retail trade

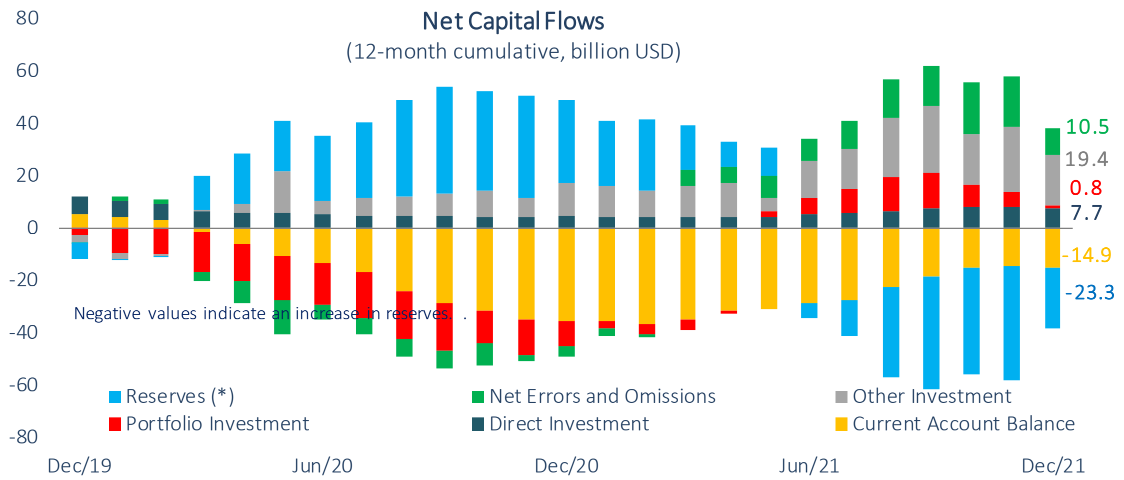
Net Foreign Direct Investment
(billion USD)



sector, which reached nearly 6 times of their level in 2020.

Portfolio investment recorded a net outflow of 2 billion USD in December.

In December 2021, an outflow of 2 billion USD was recorded in portfolio investments. In the last month of the year, non-residents made net sales of 1 billion USD and 226 million USD in the stock and government securities markets, respectively. In this period, banks realized a net borrowing of 72 million USD through bond issuances in foreign markets. Portfolio investments, which completed 2020 with a net outflow of 9.6 billion USD, finished the year of 2021



Source: CBRT, Datastream

April, increased by 837 million USD in May and limited the inflows originating from other investments. In May, banks made a net repayment of 674 million USD and the General Government made a net repayment of 19 million USD for loans provided abroad. On the other hand, other sectors made 3.6 billion USD net borrowing in May. According to the 12-month cumulative data, as of May, the long-term debt rollover ratio became 87.8% in the banking sector and 107.7% in other sectors.

Reserve assets increased by 1.3 billion USD in May.

Reserve assets increased by 1.3 billion USD in May. According to the 12-month cumulative data, the decline in reserve assets became 11 billion USD as of May. In May, there was a limited capital outflow of 154 million USD in the net errors and omissions item. In the first 5 months of the year, a capital inflow of 6.7 billion USD was recorded in the net errors and omissions item.

Expectations…

According to the preliminary foreign trade figures released by the Ministry of Commerce, the rapid increase seen in the foreign trade deficit in January continued in February as well. In this period, the export volume rose by 25.4% yoy to 20 billion USD, while the import volume reached 28.1 billion USD with a rise of 45.6% due to the increase in energy prices. Thus, the foreign trade deficit increased by 2.5 times on an annual basis in February and reached 8.1 billion USD. Considering the course of foreign trade data, we foresee that the pressure on the current account balance continued in February. In addition, the rise of commodity prices due to geopolitical developments, and the course of travel revenues will be the main factors that will put pressure on the current account balance for the remainder of the year. The decisions to be taken by the central banks of developed countries in March will also be closely followed in terms of the financing the balance of payments.

Balance of Payments

	Dec. 2021	Jan. - Dec. 2020	2021	% Change
Current Account Balance	**-3,841**	**-35,537**	**-14,882**	**-58.1**
Foreign Trade Balance	-4,989	-37,863	-29,161	-23.0
Services Balance	1,710	11,538	25,161	118.1
Travel (net)	1,306	9,180	19,177	108.9
Primary Income	-666	-9,392	-11,780	25.4
Secondary Income	104	180	898	398.9
Capital Account	**-5**	**-36**	**-70**	**94.4**
Financial Account	**-12,539**	**-39,480**	**-4,478**	**-88.7**
Direct Investment (net)	-739	-4,592	-7,697	67.6
Portfolio Investment (net)	2,010	9,556	-761	-
Net Acquisition of Financial Assets	859	2,894	2,295	-20.7
Net Incurrence of Liabilities	-1,151	-6,662	3,056	-
Equity Securities	-1,001	-4,255	-1,434	-66.3
Debt Securities	-150	-2,407	4,490	-
Other Investment (net)	-29	-12,582	-19,350	53.8
Currency and Deposits	2,953	-18,856	-9,976	-47.1
Net Acquisition of Financial Assets	3,649	-1,010	4,691	-
Net Incurrence of Liabilities	696	17,846	14,667	-17.8
Central Bank	-3	12,661	4,748	-62.5
Banks	699	5,185	9,919	91.3
Foreign Banks	838	6,028	9,306	54.4
Foreign Exchange	1,364	1,865	7,817	319.1
Turkish Lira	-526	4,163	1,489	-64.2
Non-residents	-139	-843	613	-
Loans	-894	4,063	169	-95.8
Net Acquisition of Financial Assets	603	-2,381	2,261	-
Net Incurrence of Liabilities	1,497	-6,444	2,092	-
Banking Sector	-243	-1,792	-3,563	98.8
Non-bank Sectors	1,692	-4,239	5,985	-
Trade Credit and Advances	-2,085	2,213	-3,195	-
Other Assets and Liabilities	-3	-2	-10	400.0
Reserve Assets (net)	-13,781	-31,862	23,330	-
Net Errors and Omissions	**-8,693**	**-3,907**	**10,474**	**-**

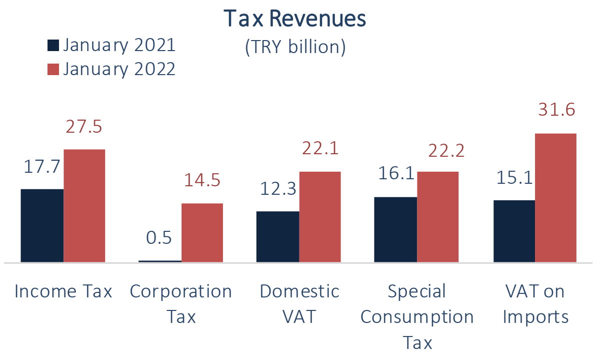
Source: CBRT, Datastream

Central government budget posted a surplus of 30 billion TRY in January.

The central government budget, which gave a deficit of 24.2 billion TRY in January 2021, performed above the market expectations and posted a surplus of 30 billion TRY in the same month of 2022. The divergence of the budget balance from the Treasury cash balance data, which is the leading indicator and had a deficit of 37.8 billion TRY in the same period, was remarkable. In January, budget revenues increased by 96.4% yoy and reached 176 billion TRY thanks to the support of the rapid rise in tax revenues. Budget expenditures expanded by 28.3% to 146 billion TRY in the same period. The primary balance, which gave a deficit of 2.2 billion TRY in January 2021, posted a surplus of 44.3 billion TRY in the same month of this year.

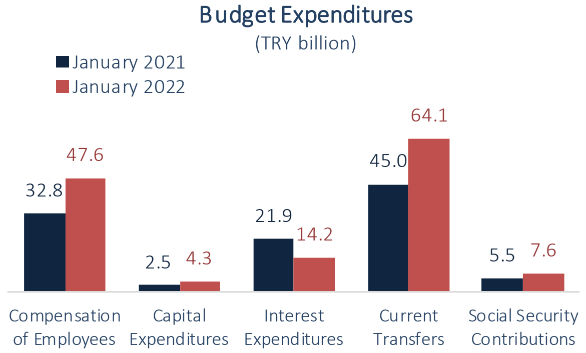
Rapid expansion in tax revenues...

In the first month of 2022, tax revenues went up by 86.1% compared to January 2021, when tax deferrals were on the agenda, and rose to 147.4 billion TRY. In addition to the 26.3 billion TRY increase in domestic and import value added taxes due to the rise in inflation and foreign exchange rates, the 14 billion TRY increase in the corporate tax because of the low base effect, were behind this development. In January, interest, shares and penalties item also played an important role in the improvement of the budget outlook by nearly quadrupling thanks to the rapid rise of 708% (11.7 billion TRY) in past-day interest on debt securities and premium sales revenues. In this period, the SCT taken from tobacco products and alcoholic beverages also supported the budget revenues.



Interest expenses decreased by 35.1%.

In January 2022, interest expenditures decreased by 35.1% yoy due to the rapid decline in TRY denominated bond interest expenditures, and limited the rise in budget expenditures by 6.8 points. In this period, non-interest expenditures increased by 43.5%, close to the annual CPI inflation. In January 2022, current transfers and personnel expenditures, which have a significant share in non-interest budget expenditures, expanded by 42.6% and 45.3% yoy, respectively, and became the main items that increased budget expenditures. Rising energy prices in global markets were also reflected in budget expenditures. Due to the high course of global energy prices, energy purchases were realized as 1.5 billion TRY in the first month of the year. In addition, building rental expenses rose significantly in this period, increasing the budget expenditures.



Expectations...

With the support of the rapid rise in budget revenues, budget indicators made a positive start to 2022. It is estimated that the positive outlook in the revenues continued in February due to the transfer of CBRT's operating revenue to the budget. However, the reduction of VAT on basic food products to 1% is expected to suppress tax revenues in the upcoming period, while the course of the pandemic as well as rising energy prices indicate that upside risks on budget expenditures will continue.

Central Government Budget (billion TRY)

	January 2021	January 2022	% Change	2022 Budget Target	Real./ Budget Target (%)
Expenditures	**113.8**	**146.0**	**28.3**	**1,751.0**	**8.3**
Interest Expenditures	21.9	14.2	-35.1	240.4	5.9
Non-Interest Expenditures	91.8	131.7	43.5	1,510.6	8.7
Revenues	**89.6**	**176.0**	**96.4**	**1,472.6**	**12.0**
Tax Revenues	79.2	147.4	86.1	1,258.3	11.7
Other Revenues	10.4	28.6	175.3	214.3	13.3
Budget Balance	**-24.2**	**30.0**	**-**	**-278.4**	**-**
Primary Balance	**-2.2**	**44.3**	**-**	**-38.0**	**-**

Numbers may not add up to total value due to rounding.

Source: Datastream , Ministry of Treasury and Finance

In February, annual CPI inflation rose to 54.4%.

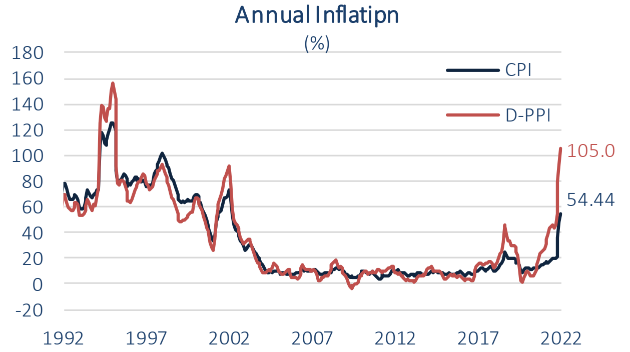
According to the data announced by TURKSTAT, the increase in inflation continued in February. In this period, monthly CPI inflation was realized as 4.81%, the highest February level in the last 25 years. In the same period, D-PPI also maintained its high course with an increase of 7.22% mom.

February	CPI		D-PPI	
(change %)	2021	2022	2021	2022
Monthly	0.91	4.81	1.22	7.22
Annual	15.61	54.44	27.09	105.01
Annual Average	12.81	25.98	15.14	56.83

Thus, annual CPI inflation continued to rise in February, reaching the highest level of the 2003-based series with 54.44%. The increase in annual D-PPI rose from 93.53% in January to 105.01% in February, reaching a 3-digit level for the first time since March 1995.

Prices in all major spending groups elevated.

In February, prices in all 12 main expenditure groups in CPI increased compared to the previous month. Food and non-alcoholic beverages group was the main expenditure group with the fastest increase in prices (8.41% mom) in February. The mentioned increase pushed monthly CPI inflation up by 213 basis points. The transportation group increased CPI inflation by 77 basis points, recording a monthly rise of 4.56%, as fuel prices increased due to the tension between Russia and Ukraine. The household goods group, where prices rose by 7% mom, also increased monthly CPI inflation by 63 basis points. Thus, the effect of the three main expenditure groups on monthly CPI inflation was 3.52 points in total.



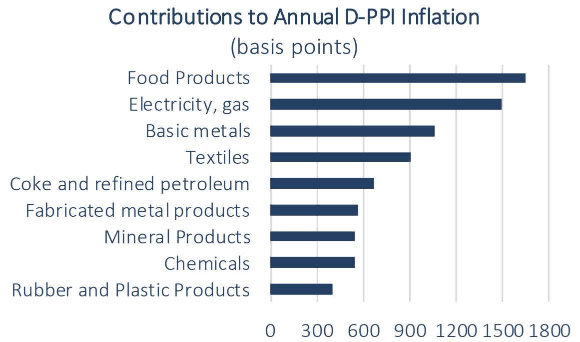
The prices in transportation group increased the fastest with 75.75% yoy and pushed up the annual CPI inflation by 11.47 points in February. The food group, where prices went up by 64.47% yoy, was the group with the highest impact on annual consumer inflation with 16.57 points. In the same period, the housing group, where prices rose by 49.72%, increased the annual CPI inflation by 7.60 points.

Core inflation indicators...

While the monthly increase in CPI excluding seasonal products was 3.81%, below the headline inflation in February, the annual rise reached its highest level (55.05%) since the data was released in 2004. Monthly increases in core inflation indicators B (CPI excluding unprocessed food products, energy, alcoholic beverages and tobacco and gold) and C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco and gold) increased by 3.87% and 3.75%, respectively. Thus, the annual increases in the B and C indices rose to 47.01% and 44.05%, respectively, reaching new record levels of the 2003 -based series.

Energy and food groups came to the fore in annual D-PPI inflation.

The price increases in all 29 sub-sectors in February indicated that the rise in D-PPI inflation spread to the whole sectors. Uncertainties created by the Russia-Ukraine tension increased oil prices in global markets and reinforced inflationary pressures. Electricity and gas production and distribution, where prices went up by 24.66% mom, increased the monthly D-PPI inflation the most with 2.05 points. In this period, the prices in food products group increased by 4.27% mom, contributing 85 basis points to inflation. In addition, monthly double digit surge in the prices of coke and refined petroleum products, non-metallic mineral products and basic pharmaceutical products group drew attention.



On an annual basis, price increases in crude oil and natural gas as well as electricity, gas production and distribution groups were at high levels, with 213.67% and 202.51%, respectively, in February. In this period, the food group made the highest contribution to the annual D-PPI inflation with 16.53 points. The electricity, gas production and distribution group and the base metal group, where prices increased by 2.5 times compared to the previous year, contributed to the annual D-PPI inflation by 14.97 and 11.39 points, respectively.

Expectations...

The tension between Russia and Ukraine throughout February turned into a hot conflict at the end of the month and the harsh sanctions announced by other countries against Russia caused the increase in the global commodity prices, especially natural gas and oil. Although there are positive developments in Turkey, such as reducing the electricity tariff for residential and agricultural irrigation and VAT rates for basic food products, the increase in the natural gas tariff used for electricity generation in parallel with the global price increases and the recent upward trend in foreign exchange rates indicate that the risks on inflation become prominent.

Source: Datastream, Turkstat

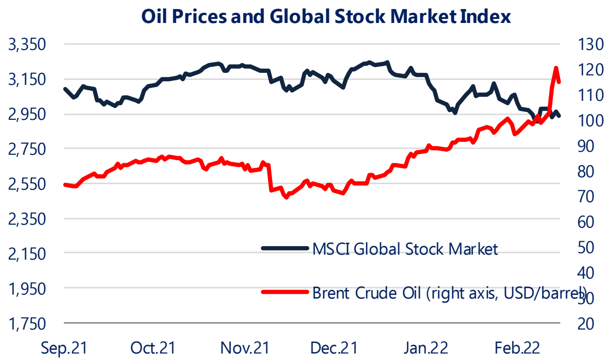
	31-Jan	28-Feb	Change
5-Y CDS (basis points)	529	581	52 bps ▲
TR 2-Y Benchmark Yield	21.84%	23.13%	129 bps ▲
BIST-100	2,003	1,946	-2.8% ▼
USD/TRY	13.3074	13.8443	4.0% ▲
EUR/TRY	14.9340	15.5346	4.0% ▲
Currency Basket*	14.1207	14.6895	4.0% ▲

(*) (0.5 USD/TRY + 0.5 EUR/TRY)

Markets displayed a negative outlook in February.

Global risk appetite remained under pressure in February due to rising tension between Russia and Ukraine. With the effect of the close combat started in the last days of February and the variety of sanctions announced by many countries against Russia, the MSCI World Stock Exchange index fell to its lowest level since May 2021.

Parallel to the decline in global markets, the BIST-100 index decreased by 2.8% on a monthly basis in February to 1,946. The USD/TRY, which floated in a narrow band until the end of the month, entered an upward trend with the increase in geopolitical tension and closed the month at 13.84. While Turkey's 5-year CDS premium completed the month with an increase of 52 basis points at 581 basis points, 2-year benchmark bond's yield went up by 129 basis points on a monthly basis to 23.13%.



The CBRT kept the policy rate at 14%.

At the Monetary Policy Committee meeting held on February 17, the CBRT kept the policy rate at 14%, in line with the market expectations. In the announcement published following the meeting, CBRT stated that cumulative effects of monetary policy were closely monitored and a review process encouraging permanent liraization was carried out in all policy instruments. The Committee also pointed out the strengthening trend in improvement of the current account balance was important for price stability, and that long-term TRY investment loans will play an important role in achieving this goal.

CBRT's February market participants survey has been published.

In Turkey, the rise in inflation expectations continued in February. According to the February Market Participants Survey published by the CBRT, the year-end consumer inflation expectation, which was 29.75% in January, rose to 34.06%. On the other hand, CPI expectations for the next 12 and 24 months declined somehow compared to the previous month to 24.83% and 15.42%, respectively. The year-end USD/TRY expectation of the market stands at 16.04, while the growth expectation for 2022 is 3.7%.

Fitch downgraded Turkey's credit rating to “B+”.

Fitch downgraded Turkey's credit rating from “BB-“ to “B+”, kept its rating outlook unchanged and declared it as “negative” in its scheduled assessment on February 11. In the statement made by the institution, the policies aimed at reducing inflation are not expected to alleviate the risks to macroeconomic and financial stability. In addition, it was pointed out that policies supporting the economy would continue to increase inflation, suppress confidence and weaken international reserves.

Securities portfolio of non-residents…

According to the securities statistics announced by the CBRT, as of February 25, non-residents' adjusted for price and exchange rate movements stock portfolio decreased by net 156.2 million USD and GDDS portfolio by net 516.6 million USD since the end of January. Since the beginning of the year, net outflows have been recorded by 526 million USD from the stock market and by 660 million USD from the bond market.

The new economy support package has been announced…

On February 12, a new economic support package, which includes measures aiming to bring physical gold into the financial system, reduce inflation, and increase investment and exports was announced. Within the scope of the package, three new Credit Guarantee Fund supports with a total amount of 60 billion TRY (25 billion TRY each for investment and export supports, and 10 billion TRY for operational expenditures) would be put into use. In addition, taxes on food products were reduced and companies that are not net exporters were also given the opportunity to use rediscount credits.

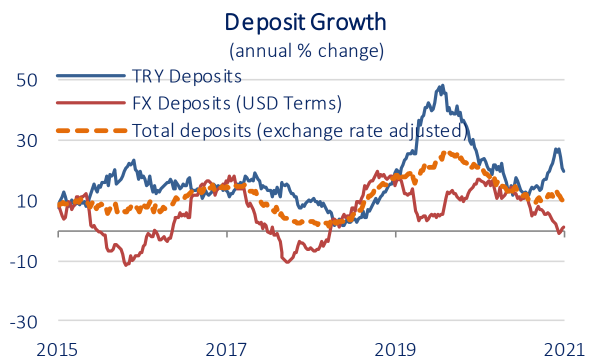
According to the decision published in the Official Gazette on February 18, it was announced that the companies, which are co-owned by citizens residing abroad, and of which qualifications are determined by the Central Bank, are also included in the scope of the Citizens Residing Abroad Deposit and Participation System (YUVAM).

BRSA regulations in vehicle loans…

The Banking Regulation and Supervision Agency increased the limits and maturity periods for vehicle loans at various levels. In this context, the maturity of the loans extended for vehicles with a final invoice value below 400K TRY was determined as 48 months, while the loan maturities for vehicles with invoice value between 400K-800K TRY, 800K-1.2M TRY and 1.2M-2M TRY are arranged as 36, 24 and 12 months, respectively. Sector representatives evaluate that the regulation may have a positive impact on sales by increasing the use of vehicle loans, which have been decreasing recently.

Deposit volume became 5,652 billion TRY.

According to the BRSA Weekly Bulletin figures, as of February 25, the TRY deposit volume expanded by 49.9% yoy and exceeded 2.3 trillion TRY, while FX deposit volume in USD terms declined by 7% to 237.8 billion USD. Thus, total deposit volume increased by 64.1% yoy and reached 5,652 billion TRY as of 25 February. In this period, the exchange rate adjusted annual increase in deposit volume became 18.9%, the highest level since January 2021. The decrease in the FX deposit volume with the effect of the inclusion of corporate companies in the FX-linked deposit system since January, continued also in February. Between December 20, 2021, when the product was introduced, and February 25, 2022, FX deposit volume decreased by 22.2 billion USD. According to the data announced by the BRSA, the total FX-linked deposit volume stood at 520 billion TRY as of February 25.

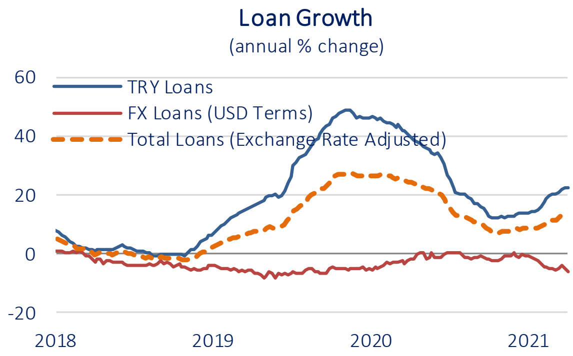


In February, total loan volume exceeded 5 trillion TRY.

As of February 25, the total loan volume of the banking sector increased by 44.2% yoy to 5,181 billion TRY. In this period, the increase in the exchange rate effect adjusted loan volume was realized as 15.6%. As of February 25, annual TRY loan growth became 26.6%, while FX loan volume in USD terms decreased by 5.8% yoy to 156.8 billion USD.

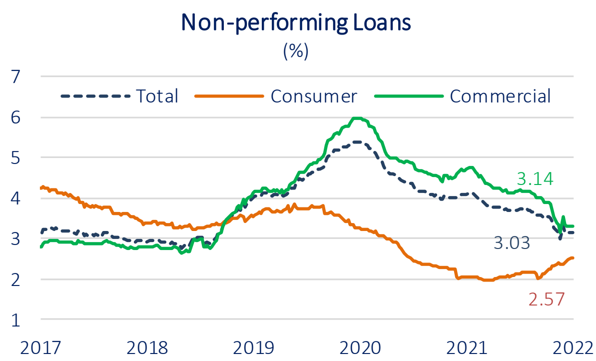
The loss of momentum in vehicle loans gained momentum.

The annual increase in consumer loans, which has followed a relatively flat course since the beginning of the year, was realized as 14.9% as of February 25. In this period, housing loans rose by 10% yoy, while consumer loans increased by 18.8% yoy and constituted 3/5 of consumer loans. On the other hand, the annual increase in the volume of vehicle loans continued to lose momentum, declining to the lowest level since November 2019 with 2.0%. As of February 25, the annual rate of increase in the balance of individual credit cards remained high at 48.1%.



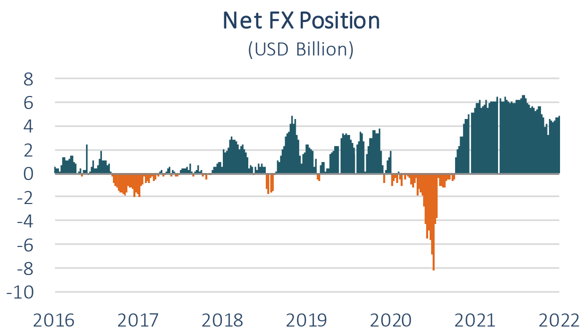
NPL ratio declined to 3.03%.

As of February 25, NPL ratio continued to decline thanks to the expansion in loan volume, and was realized as 3.03%. On the other hand, the NPL ratio for retail loans continued its rise seen in recent months and became 2.57%. The said ratio was recorded as 3.14% in commercial loans.



Net foreign currency position…

As of February 25, banks' on-balance sheet FX position was (-) 31,303 million USD, while off-balance sheet FX position was (+) 36,094 million USD. Thus, the net FX position of the banking sector was realized as (+) 4,791



Source: BRSA Weekly Bulletin

Concluding Remarks

Geopolitical tensions between Russia and Ukraine were the focus of global markets in February. While the tension between the two countries turned into a hot conflict as of February 24, the whole world reacted to it. Many countries, especially the US and the European Union, decided to impose tough sanctions against Russia. The sanctions reinforced concerns about global energy supplies. There was an increasing demand for safe investment instruments, while equity markets were under pressure due to the developments.

Macroeconomic data for the first two months of the year indicate that the positive trend in economic activity continued in developed countries. On the other hand, recent geopolitical developments have increased the risks regarding the course of economic activity. The rapid rise in commodity prices, especially oil and natural gas, indicates that the level of prices will remain high in the short term. The Fed and ECB's monetary policy meetings are on the top of the agenda of global markets in March. The acceleration of U.S. inflation rise supports expectations that the Fed could start raising interest rates at its March meeting and increase the level of projected tightening in monetary policy. On the other hand, the uncertainty created by the invasion of Ukraine and sanctions against Russia over the global economic outlook is expected to be influential in the monetary policy decisions of the major central banks for the remainder of the year. In addition, financial markets are closely monitoring the potential risks that restricting Russia's access to financial liquidity could pose to the global banking sector, especially European banks, due to their current high integration.

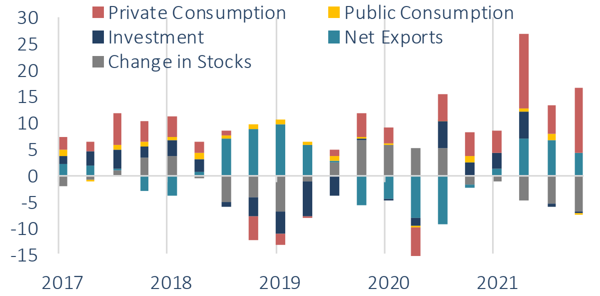
Geopolitical developments were also the main agenda topic in Turkey and have caused a decrease in risk appetite for the country since mid-February. The exchange rates, which followed a relatively steady course with the effect of the measures to encourage TRY in recent period, deteriorated in some extent after Russia launched a military operation against Ukraine on February 24. The 5-year CDS premium, which completed January at 530 basis points, rose to 581 basis points at the end of February.

Turkish economy displayed a positive growth performance in 2021 with strong domestic and international demand conditions and partly with the contribution of investments. Preliminary data released in the first months of 2022 indicate that economic activity lost some momentum. As well as the pressure that high inflation figures might create on real incomes, the war between Russia and Ukraine is expected to have negative effects on the Turkish economy through import of agricultural products, security of energy supply and pressure on tourism revenues.

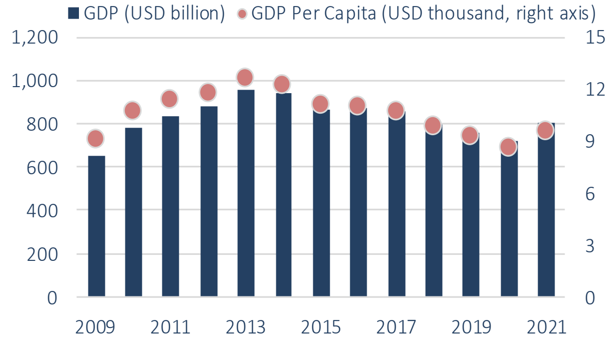
Growth

Contributions to GDP Growth

(% point)

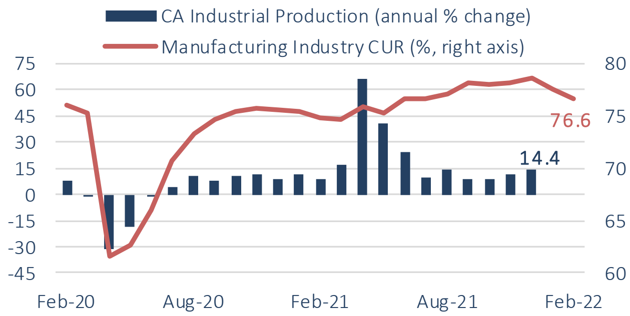


GDP

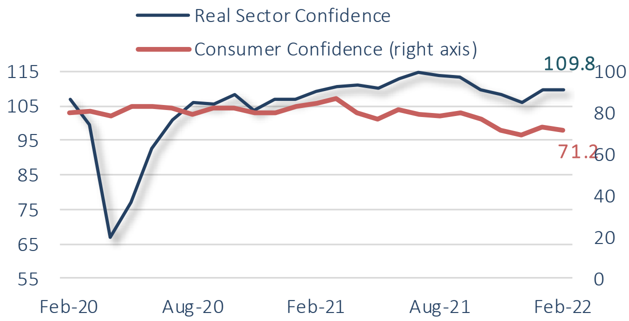


Leading Indicators

Industrial Production and Capacity Utilization



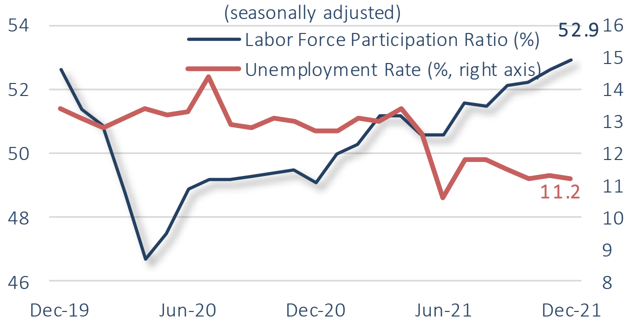
Confidence Indices



Labor Market

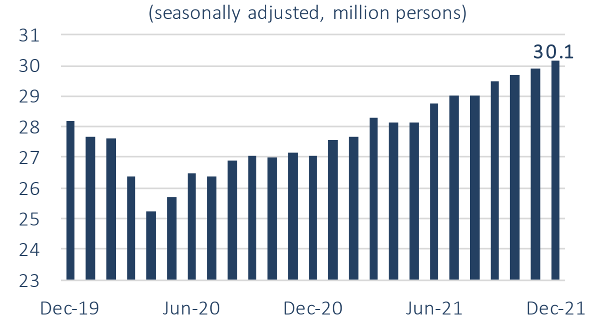
Employment Indicators

(seasonally adjusted)



Employment

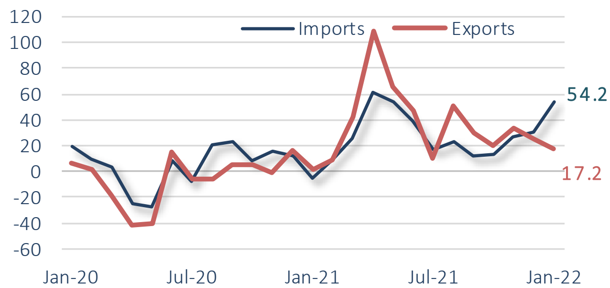
(seasonally adjusted, million persons)



Foreign Trade and Current Account Balance

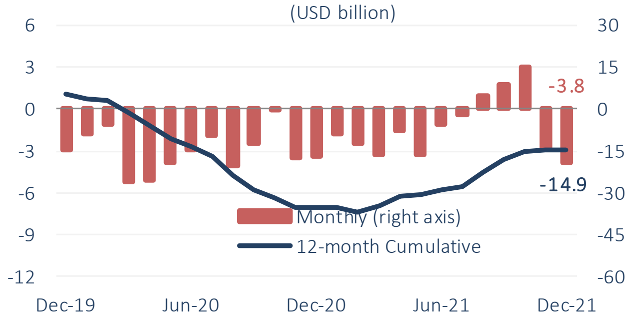
Foreign Trade

(annual % change)



Current Account Balance

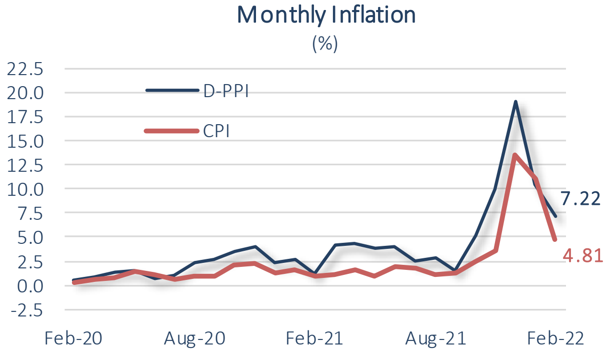
(USD billion)

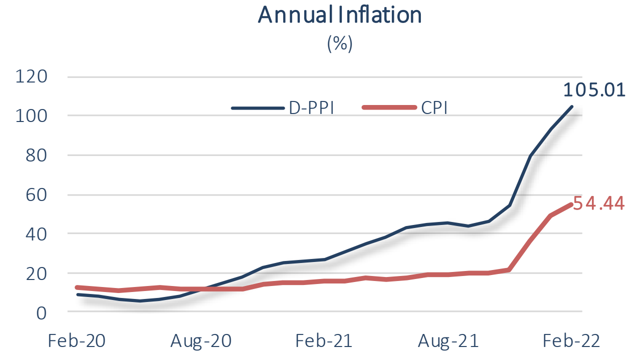


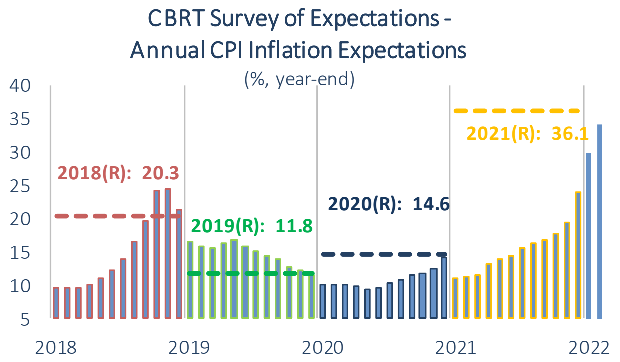
(CA) Calendar adjusted

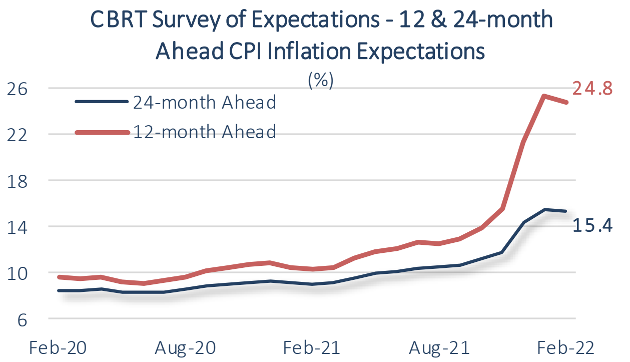
Source: Datastream, CBRT, Turkstat

Inflation

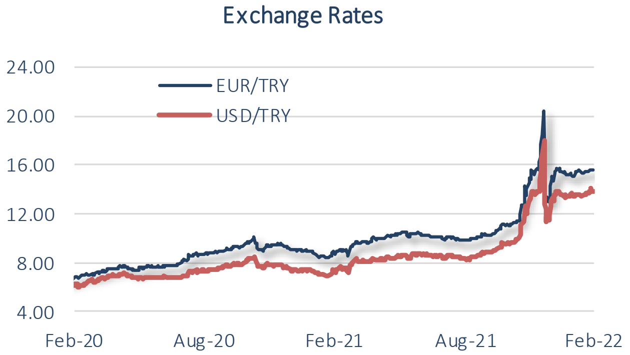


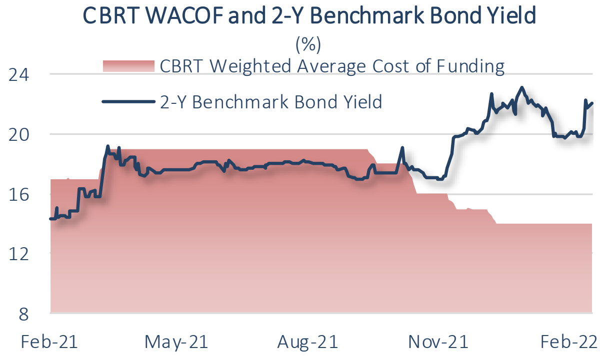


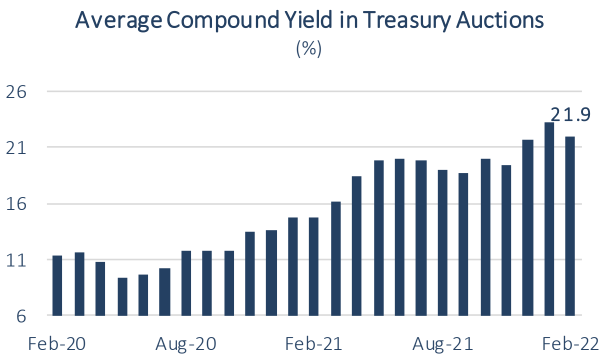


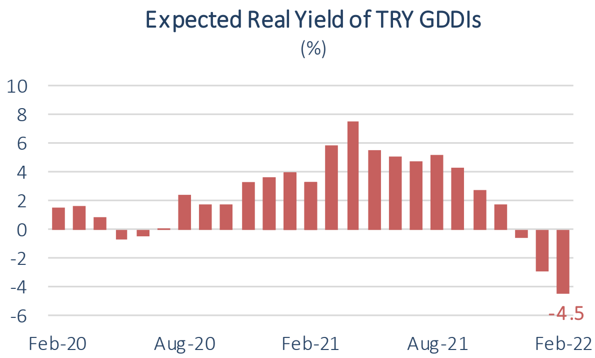


Foreign Exchange and Bond Market









(R) Realization

Source: BİST, Datastream, Reuters, CBRT, Turkstat, Treasury

Growth	2017	2018	2019	2020	2021		
GDP (USD billion)	859	797	760	717	803		
GDP (TRY billion)	2,627	3,758	4,318	5,047	7,209		
GDP Growth Rate (%)	7.5	3.0	0.9	1.8	11.0		
Inflation (%)						**Jan-22**	**Feb-22**
CPI (annual)	11.92	20.30	11.84	14.60	36.08	48.69	54.44
Domestic PPI (annual)	15.47	33.64	7.36	25.15	79.89	93.53	105.01
Seasonally Adjusted Labor Market Figures							
Unemployment Rate (%)	9.9	12.7	13.4	12.7	11.2		
Labor Force Participation Rate (%)	52.8	53.2	52.6	49.1	52.9		
FX Rates						**Jan-22**	**Feb-22**
CPI Based Real Effective Exchange Rate	86.3	76.4	76.2	62.2	47.9	52.8	54.8
USD/TRY	3.79	5.32	5.95	7.43	13.28	13.42	13.86
EUR/TRY	4.55	6.08	6.68	9.09	15.10	15.04	15.57
Currency Basket (0.5*EUR+0.5*USD)	4.17	5.70	6.32	8.26	14.19	14.23	14.71
Foreign Trade Balance (1) (USD billion)							**Jan-22**
Exports	164.5	177.2	180.8	169.6	225.3		227.9
Imports	238.7	231.2	210.3	219.5	271.4		281.2
Foreign Trade Balance	**-74.2**	**-54.0**	**-29.5**	**-49.9**	**-46.2**		**-53.4**
Import Coverage Ratio (%)	68.9	76.6	86.0	77.3	83.0		81.0
Balance of Payments (1) (USD billion)							
Current Account Balance	**-40.9**	**-21.7**	**5.3**	**-35.5**	**-14.9**		
Capital and Financial Accounts	**-49.7**	**1.1**	**5.1**	**-39.5**	**-4.5**		
Direct Investments (net)	-8.5	-8.9	-6.6	-4.6	-7.7		
Portfolio Investments (net)	-24.4	0.9	2.8	9.6	-0.8		
Other Investments (net)	-8.5	19.4	2.6	-12.6	-19.4		
Reserve Assets (net)	-8.2	-10.4	6.3	-31.9	23.3		
Net Errors and Omissions	**-8.8**	**22.7**	**-0.3**	**-3.9**	**10.5**		
Current Account Balance/GDP (%)	**-4.8**	**-2.7**	**0.7**	**-5.0**	**-1.9**		
Budget (2)(3) (TRY billion)							**Jan-22**
Expenditures	**678.3**	**830.8**	**1000.0**	**1203.7**	**1599.6**		**146.0**
Interest Expenditures	50.2	74.0	99.9	134.0	180.9		14.2
Non-interest Expenditures	628.0	756.8	900.1	1069.8	1418.8		131.7
Revenues	**630.5**	**758.0**	**875.3**	**1028.4**	**1407.4**		**176.0**
Tax Revenues	536.6	621.5	673.9	833.3	1164.8		147.4
Budget Balance	**-47.8**	**-72.8**	**-124.7**	**-175.3**	**-192.2**		**30.0**
Primary Balance	**8.9**	**1.1**	**-24.8**	**-41.3**	**-11.4**		**44.3**
Budget Balance/GDP (%)	**-1.8**	**-1.9**	**-2.9**	**-3.5**	**-2.7**		-
Central Government Debt Stock (TRY billion)							**Jan-22**
Domestic Debt Stock	535.4	586.1	755.1	1060.4	1321.2		1,354.8
External Debt Stock	341.0	481.0	574.0	752.5	1426.5		1489.6
Total Debt Stock	**876.5**	**1067.1**	**1329.1**	**1,812.8**	**2,747.7**		**2,844.5**

(1) 12-month cumulative
(2) Year-to-date cumulative
(3) According to Central Government Budget

Source: CBRT, Datastream, Ministry of Treasury and Finance , Reuters, Turkstat

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2017	2018	2019	2020	2021	Jan.22	Change[1]
TOTAL ASSETS	3,258	3,867	4,492	6,106	9,215	9,221	0.1
Loans	2,098	2,394	2,656	3,576	4,901	4,965	1.3
TRY Loans	1,414	1,439	1,642	2,353	2,832	2,891	2.1
Share (%)	67.4	60.1	61.8	65.8	57.8	58.2	-
FX Loans	684	956	1,015	1,224	2,069	2,074	0.3
Share (%)	32.6	39.9	38.2	34.2	42.2	41.8	-
Non-performing Loans	64.0	96.6	150.1	152.6	160.1	161.2	0.7
Non-performing Loan Rate (%)	3.0	3.9	5.3	4.1	3.2	3.1	-
Securities	402	478	661	1,023	1,477	1,525	3.3
TOTAL LIABILITIES	3,258	3,867	4,492	6,106	9,215	9,221	0.1
Deposits	1,711	2,036	2,567	3,455	5,303	5,381	1.5
TRY Deposits	955	1,042	1,259	1,546	1,880	2,075	10.4
Share (%)	55.8	51.2	49.0	44.7	35.5	38.6	-
FX Deposits	756	994	1,308	1,909	3,423	3,306	-3.4
Share (%)	44.2	48.8	51.0	55.3	64.5	61.4	-
Securities Issued	145	174	194	224	310	311	0.4
Payables to Banks	475	563	533	658	1,048	1,053	0.4
Funds from Repo Transactions	99	97	154	255	587	471	-19.7
SHAREHOLDERS' EQUITY	359	421	492	600	714	752	5.3
Profit (Loss) of the Period	49.1	53.5	49.8	58.5	93.0	20.1	-
RATIOS (%)							
Loans/GDP	67.0	63.7	61.5	70.9	68.0		
Loans/Assets	64.4	61.9	59.1	58.6	53.2	53.8	-
Securities/Assets	12.3	12.4	14.7	16.7	16.0	16.5	-
Deposits/Liabilities	52.5	52.6	57.1	56.6	57.5	58.4	-
Loans/Deposits	122.6	117.6	103.5	103.5	92.4	92.3	-
Capital Adequacy (%)	16.9	17.3	18.4	18.7	18.4	18.5	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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